

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 ARA-06 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 H-02 PA-01 PRS-01 USIE-00 INRE-00 SSO-00

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O 021031Z MAY 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 9008

C O N F I D E N T I A L SECTION 01 OF 03 PARIS 11103

DEPT RPT OTHER POSTS AS DESIRED

E.O. 11652: GDS

TAGS: EFIN, CI, FR

SUBJECT: CHILE DEBT RESCHEDULING

REF: A) STATE 96422; B) STATE 102404

1. SUMMARY. CONVERSATIONS WITH ELYSEE ECONOMIC AND FINANCIAL ADVISOR AND PARIS CLUB CHAIRMAN INDICATE GOF WOULD PROBABLY NOT AGREE TO MEETING OF CLUB WITH CHILE BEFORE LATE JULY OR AUGUST. GOF CONCERN IS WITH ADVERSE REPERCUSSIONS IT FEARS SUCH A FORMAL, MULTI-LATERAL MEETING COULD HAVE ON FRENCH DOMESTIC POLITICAL SITUATION, WHERE CONSIDERABLE ANTI-CHILE SENTIMENT EXISTS. AS POSSIBLE WAY OUT OF IMPASSE, FRENCH WILL PROPOSE TO MAY 5-6 MEETING OF CREDITORS ONLY A FORMULA WHEREBY CREDITORS, WITHOUT MEETING WITH CHILE AT ALL, WOULD REACH EARLY AGREEMENT AMONG SELVES RE APPROPRIATE TERMS FOR 1975 RESCHEDULING. THOSE CREDITORS WILLING TO DO SO WOULD THEN TRANSLATE THOSE TERMS INTO BILATERAL RESCHEDULING AGREEMENTS WITH CHILE.

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GOF WOULD LIKELY PARTICIPATE IN SUCH AN ARRANGEMENT,

AND THEY HOPE SOME OF THE OTHER RECALCITRANTS COULD BE
RECUPERATED AS WELL. THEY WOULD BE WILLING TO HAVE
"ONE OF THE CREDITORS" DESIGNATED TO SECURE GOC
ACCEPTANCE OF THE TERMS. END SUMMARY.

2. ON APRIL 29 BOEKER, ACCOMPANIED BY FINANCIAL
ATTACHE, SAW NEBOT, ASSISTANT TREASURY DIRECTOR IN
FRENCH FINANCE MINISTRY AND PARIS CLUB CHAIRMAN, RE
PROSPECTS FOR MAY 5-6 CREDITORS MEETING ON CHILE DEBT
PROBLEM. NEBOT SAID FINANCE MINISTRY HAD ASKED
PRESIDENT GISCARD D'ESTAING FOR INSTRUCTIONS AS TO
WHETHER OR NOT GOF WOULD NOW BE WILLING TO TAKE PART IN
EARLY MEETING WITH CHILE TO AGREE ON 1975 RESCHEDULING.
IF GISCARD'S DECISION WAS AFFIRMATIVE, THE ADDITION OF
FRANCE TO RANKS OF COUNTRIES READY TO RESCHEDULE WOULD
MAKE POSSIBLE RAPID MOVEMENT OF CLASSICAL PARIS CLUB
PROCEDURE TO FAVORABLE OUTCOME. HOWEVER, THERE WAS
CONSIDERABLE DOUBT THAT GISCARD'S DECISION WOULD BE
AFFIRMATIVE. IN THIS CASE, IT SEEMED TO NEBOT THAT
"LEAST UNSATISFACTORY" COURSE WOULD BE FOR CREDITORS TO
AGREE AMONG THEMSELVES ON WHAT TERMS WOULD BE
APPROPRIATE FOR 1975 RESCHEDULING. THEN THOSE CREDITORS
HAVING NO POLITICAL RESERVATIONS ABOUT CHILE WOULD
SIGNIFY THEIR WILLINGNESS TO IMPLEMENT THIS UNDERSTAND-
ING IMMEDIATELY IN BILATERAL NEGOTIATIONS WITH GOC,
WITH OTHER CREDITORS BEING FREE TO FOLLOW SUIT LATER ON
IF CIRCUMSTANCES CHANGED TO THEIR LIKING. PARIS CLUB
CHAIRMAN WOULD UNDERTAKE TO PERSUADE GOC THAT THIS
ARRANGEMENT WAS VIRTUALLY TANTAMOUNT TO CLASSICAL
RESCHEDULING.

3. BOEKER TOLD NEBOT HE SAW TWO MAJOR DIFFICULTIES
WITH THIS "HALF-WAY HOUSE." FIRST, IT PROVIDED NO WAY
TO OBTAIN SIMULTANEOUS AGREEMENT OF THE DEBTOR COUNTRY
TO THE TERMS PRESCRIBED BY THE CREDITORS NOR TO OBTAIN
THE USUAL UNDERTAKINGS FROM THE DEBTOR COUNTRY ON
ECONOMIC POLICY, ETC. SECOND, IT OFFERED NO ASSURANCE
AS TO SPECIFICALLY WHICH CREDITOR COUNTRIES WOULD
PARTICIPATE IN MULTILATERAL RESCHEDULING EFFORT FOR
CHILE. NEBOT REITERATED THAT THERE WAS UNLIKELY TO BE
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SHIFT IN FRENCH POSITION THAT WOULD MAKE IT POSSIBLE
FOR MAY 5-6 SESSION TO AGREE ON EARLY MEETING OF
CREDITORS WITH CHILE. THUS HE FELT HIS FALLBACK PROPOS-
AL WAS A WAY OUT OF THE PRESENT IMPASSE. HE SUGGESTED,
HOWEVER, THAT U.S. MIGHT WISH TO MAKE REPRESENTATIONS
TO ELYSEE IN EFFORT TO PERSUADE GISCARD TO AUTHORIZE
FRENCH PARTICIPATION IN EARLY CLASSICAL RESCHEDULING.

4. ACCORDINGLY, ON APRIL 30 ECONCOMMIN, BOEKER AND FINANCIAL ATTACHE CALLED ON DUTET, PRESIDENTIAL ECONOMIC AND FINANCIAL ADVISOR, TO PURSUE MATTER FURTHER. ECONCOMMIN SAID WE UNDERSTOOD FROM FINANCE MINISTRY THAT CHILE DEBT PROBLEM WAS AGAIN BEFORE GISCARD. PURPOSE OF OUR VISIT WAS TO PRESENT U.S. VIEWS, SO THAT GISCARD COULD HAVE BENEFIT OF OUR THINK-

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TO SECSTATE WASHDC IMMEDIATE 9009

C O N F I D E N T I A L SECTION 02 OF 03 PARIS 11103

ING ON THIS IMPORTANT PROBLEM AS HE PONDERED MATTER OF FRENCH POSITION. (DUTET, WHO IS LEAVING ON SATURDAY FOR TRIP TO MOROCCO WITH GISCARD, WILL HAVE GOOD OPPORTUNITY TO BRING OUR COMMENTS TO GISCARD'S ATTENTION.) ECONCOMMIN ADDED THAT IN OUR VIEW, KEY ROLE WHICH GOF COULD PLAY IN BREAKING PRESENT DEADLOCK MADE IT ALL THE MORE DESIRABLE THAT GOF HAVE IN MIND ALL CONSIDERATIONS BEARING ON THE MATTER AS IT REASSESSED ITS OWN POSITION.

5. BOEKER THEN OUTLINED FOR DUTET SALIENT POINTS OF SITUATION AS U.S. SAW THEM. FIRST, CHILE WAS CLASSICAL

CASE OF DEFAULT FOR WHICH PARIS CLUB WAS PRECISELY DESIGNED. IF CREDITORS FAILED TO ADDRESS PROBLEM PROMPTLY AND EFFECTIVELY, NOT ONLY WOULD 1975 MATURITIES BE IN JEOPARDY, BUT CREDITORS WOULD BE IN DANGER OF SEEING THEIR ENTIRE CAPITAL WIPED OUT. THUS CREDITORS HAD STRONG COMMON INTEREST IN DOING EVERYTHING THEY COULD TO AVERT DEFAULT. SECOND, PRESENT TERGIVERSATION OF PARIS CLUB OVER CHILE WAS DESTROYING, OR AT LEAST GRAVELY COMPROMISING, AN INSTITUTION THAT WAS CONFIDENTIAL

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EXTREMELY VALUABLE FROM CREDITORS' VIEWPOINT. WE UNDERSTOOD GOF WAS CONSIDERING PROPOSAL WHEREBY CREDITORS WOULD DECIDE UNILATERALLY ON TERMS OF CHILE RESCHEDULING. WE FEARED SUCH AN APPROACH WOULD BE FRAUGHT WITH GREAT DANGER FOR FUTURE OF CLUB. IN ANY RESCHEDULING, SOME CREDITORS MIGHT HAVE POLITICAL RESERVATIONS OF ONE KIND OR ANOTHER ABOUT THE DEBTOR, AND THUS BLOCK NORMAL CLUB MECHANISM. DEVELOPING COUNTRIES WOULD REJECT A PROCESS THAT CONSISTED ESSENTIALLY OF "ULTIMATUM" FROM CREDITORS, AND PARIS CLUB WOULD WITHER AWAY, FORCING CREDITORS TO UNDERTAKE FUTURE RESCHEDULINGS UNDER CONDITIONS AND IN FORUMS MUCH LESS FAVORABLE TO THEIR INTERESTS. FINALLY, WE BELIEVED IT WAS IMPERATIVE FOR CREDITORS TO FIX EARLY DATE FOR MEETING WITH CHILE THAT WOULD RESULT IN RESCHEDULING AGREEMENT. FINANCIAL COMMUNITY WAS WATCHING CLOSELY ATTITUDE OF CREDITOR GOVERNMENTS TOWARDS CHILE. IN ABSENCE OF PARIS CLUB RESCHEDULING, CHILE'S ABILITY TO BORROW NEW MONEY FROM PRIVATE SOURCES WOULD BE COMPROMISED, AND PERHAPS FROM INTERNATIONAL FINANCIAL INSTITUTIONS AS WELL. IN THE END, THEREFORE, BY PROCRASTINATING, CREDITOR GOVERNMENTS WOULD BE FORCED INTO SHOULDERING MUCH GREATER FINANCIAL BURDEN THAN IF THEY ACTED NOW.

6. DUTET, WHO TOOK CAREFUL NOTES OF OUR COMMENTS, SAID GOF CERTAINLY RECOGNIZED VALIDITY OF BOEKER'S FIRST TWO POINTS. ON THE OTHER HAND, HE DID NOT SEE MUCH HOPE, GIVEN GOF CONCERNS ABOUT EFFECT ON FRENCH DOMESTIC POLITICAL SITUATION AND PROBLEM CREATED FOR FRANCE BY ABSENCE OF SUCH EC COUNTRIES AS UK AND ITALY AND IN ALL LIKELIHOOD BELGIUM, NETHERLANDS AND DENMARK AS WELL, THAT GISCARD WOULD APPROVE NOW FRENCH PARTICIPATION IN EARLY MEETING OF PARIS CLUB WITH CHILE. DUTET FELT IT WAS PREMATURE AT THIS JUNCTURE TO ATTEMPT TO FIX DATE FOR ANY SUCH MEETING. GOF WOULD WANT TO REFLECT ON INDICATIONS DEVELOPED BY MAY 5-6 CREDITORS' MEETING BEFORE ADDRESSING MATTER OF FIRM DATE FOR FULL CLUB MEETING. AS IT LOOKED NOW, GISCARD WAS UNLIKELY TO

AGREE TO FRENCH PARTICIPATION IN SUCH MEETING BEFORE
LATE JULY OR AUGUST, WHEN MANY PARISIANS WOULD BE ON
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VACATION AND THE MINDS OF THE PUBLIC ON OTHER MATTERS
THAN CHILE. IN VIEW OF THIS TIMING PROBLEM, FRENCH

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CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 H-02 PA-01 PRS-01 USIE-00 INRE-00 SSO-00

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C O N F I D E N T I A L SECTION 03 OF 03 PARIS 11103

HAD CONCLUDED THAT BEST ALTERNATIVE MEANS OF MAKING
EARLY PROGRESS TOWARDS 1975 RESCHEDULING IN FAVOR OF
CHILE WOULD BE FOR CREDITORS TO REACH AGREEMENT AMONG
SELVES ON APPROPRIATE TERMS, WHICH THOSE CREDITORS SO
WISHING COULD THEN USE AS BASIS FOR EARLY BILATERAL
AGREEMENTS WITH CHILE. IN OTHER WORDS, SAID DUTET, IF
CREDITORS COULD REACH AGREEMENT ON SUBSTANCE, PROCEDURAL
ASPECTS WOULD FALL INTO PLACE MORE OR LESS AS MATTER OF

COURSE.

7. BOEKER RESTATED TO DUTET COMMENTS HE HAD MADE TO NEBOT (PARA 2 ABOVE) RE DIFFICULTIES WE SAW WITH THIS ALTERNATIVE. ON MATTER OF SECURING CHILEAN ENDORSEMENT OF TERMS AGREED AMONG CREDITORS, DUTET SAID "ONE OF THE CREDITORS" COULD BE GIVEN TASK OF ACTING AS CREDITORS' SPOKESMAN TO GOC AND CHECKING BACK WITH CREDITORS ANY MODIFICATIONS REQUESTED BY GOC. AS TO QUESTION OF WHICH CREDITORS WOULD FOLLOW THROUGH PROMPTLY ON BILATERAL AGREEMENTS WITH CHILE, DUTET FELT PROPOSED FORMULA, WHICH AVOIDED ANY FULL-DRESS MEETING WITH CHILE UNDER EYES OF PRESS AND PUBLIC
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OPINION, WAS CALCULATED TO MAXIMIZE PARTICIPATION. IN PARTICULAR, HE THOUGHT GISCARD WOULD LIKELY AUTHORIZE GOF TO NEGOTIATE BILATERAL RESCHEDULING AGREEMENT WITH CHILE UNDER THIS PROCEDURE. FRENCH CONCERN RELATED NOT TO RESCHEDULING OF CHILE DEBT AS QUESTION OF SUBSTANCE, BUT RATHER TO SITTING DOWN WITH CHILE IN FORMAL, MULTILATERAL MEETING, WHERE MOST OF FRANCE'S EC PARTNERS WOULD NOT BE PRESENT, AND WHICH COULD HAVE UNDESIRABLE POLITICAL REPERCUSSIONS WITHIN FRANCE. BILATERAL NEGOTIATIONS COULD BE CARRIED ON DISCREETLY AND WERE NOT LIKELY TO ATTRACT PUBLIC ATTENTION IN FRANCE.

8. IN CONCLUSION, DUTET SAID HE WOULD OF COURSE INFORM GISCARD OF OUR DEMARCHE. WE SAID WE WOULD REPORT TO WASHINGTON PRESENT FRENCH ASSESSMENT OF PROBLEM, AS OUTLINED BY DUTET AND NEBOT, TOGETHER WITH THEIR PROPOSAL FOR POSSIBLE WAY OUT OF IMPASSE.

9. THIS MESSAGE NOT CLEARED WITH BOEKER.
RUSH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
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